

August 23, 1996

Rodney Watanabe  
Senior Vice President  
Hawaii Community Federal Credit Union  
P.O. Box 747  
Kealahou, HI 96750

Re: Balloon Loans (Your July 24, 1996, Letter)

Dear Mr. Watanabe:

You have asked whether it is permissible to use a balloon payment method to finance business loans. In general, such loans are permissible regardless of either the type of property securing the loan or the purpose of the loan, as long as balloon payment loans are not used to circumvent the twelve year maturity restriction in the FCU Act and NCUA's Regulations. 12 U.S.C §1757(5) and 12 C.F.R. §701.21(c)(4). We are enclosing three prior opinions discussing balloon loans which may provide further assistance. We defer to the region on whether these types of loans present any safety and soundness concerns.

Sincerely,

Richard S. Schulman  
Associate General Counsel

GC/MJMcK:bhs  
SSIC 3501  
96-0753

Enclosures

cc: Region VI Director